

## SUMMARY ANALYSIS OF AMENDED BILL

Author: Leach Analyst: Jeani Brent Bill Number: AB 1708  
Related Bills: See previous analysis Telephone: 845-3410 Amended Date: APTBA  
Attorney: Doug Bramhall Sponsor:

**SUBJECT:** Employer Qualified Wages Credit/Qualified Training Program

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced January 27, 1998.

☒ FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 27, 1998 STILL APPLIES.

OTHER - See comments below.

### SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would authorize a credit to taxpayers equal to 50% of the qualified wages paid or incurred during the taxable or income year. To qualify for this credit, the qualified wages must be paid to an employee enrolled in a training program administered by the Employment Development Department (EDD) or taught at an accredited vocational school or community college.

### SUMMARY OF AMENDMENT

The proposed amendments would modify this wages credit by:

- expanding the requirement that the training program be administered by the Employment Training Panel (ETP) by substituting any program administered by the EDD (of which ETP is a part) or an accredited vocational school or community college;
- redefining "qualified time period" to be the employee's first year of employment with the taxpayer;
- eliminating the requirement for an ETP contract;
- requiring that the employee must have been eligible for or receiving Temporary Assistance for Needy Families (TANF) program benefits; and
- limiting the credit to \$5,000 per taxpayer per year.

DEPARTMENTS THAT MAY BE AFFECTED:

\_\_\_ STATE MANDATE

\_\_\_ GOVERNOR'S APPOINTMENT

Board Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
☒ PENDING

Agency Secretary Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
DEFER TO \_\_\_\_\_

**GOVERNOR'S OFFICE USE**

Position Approved \_\_\_  
Position Disapproved \_\_\_  
Position Noted \_\_\_

Department/Legislative Director Date  
**Johnnie Lou Rosas** **3/24/98**

Agency Secretary Date

By: Date:

The proposed amendments also would delete the proposed credit that would have been equal to 6% of the amount paid or incurred for qualified training property.

The policy consideration and one of the implementation considerations in the department's previous analysis of the bill as introduced January 27, 1998, have been resolved by the amendments. The remaining concerns and new concerns rising from the proposed amendments, as well as the new revenue estimate, are discussed below. The remainder of the department's previous analysis still applies.

#### Implementation Considerations

The amendments would eliminate the requirement of the EPT contract, including the requirement that the taxpayer keep of the ETP contract and present it to the department on request. The amendments also eliminate the requirement that all aspects of the qualified training program must be completed for the credit to be allowed. To verify this credit, it would seem appropriate to reinstate this language, but instead require that the appropriate documentation validating completion of the program from the EDD, vocational school, or community college be retained by the taxpayer and be made available to the department upon request.

The qualified employee must have been eligible for or receiving TANF program benefits. The department would have difficulty verifying whether the employee was eligible for TANF benefits if the employee was not actually receiving them.

This bill would allow an unlimited carryover period for the credits. Recently enacted credits have contained a limited carryover period since credits typically are exhausted within eight years. Also, as drafted, the bill is unclear whether qualified wages exceeding \$5,000 are eligible for carryover or whether the carryover amount may not exceed the \$5,000 limitation. Staff is available to work with the author's staff to clarify these issues.

"Qualified time period" is defined as the employee's first year of employment with the taxpayer. Subdivision (c) also specifies that the credit shall be allowed only for the employee's "qualified wages" for the first year of employment. This language appears duplicative. However, both provisions and the definition of "qualified wages" leave unclear whether the credit applies to all the wages paid to the employee during the first year, or only to the wages paid while the employee is attending the qualified training program.

#### Technical Considerations

Under the B&CTL, this language specifies that the credit may not exceed \$5,000 per taxpayer "per taxable year." For B&CTL purposes, this language should be "per income year."

FISCAL IMPACT

Tax Revenue Estimate

This bill is estimated to impact PIT and B&CT revenue as shown in the following table. The estimates assume that new hires prior to 1/1/99 are not eligible.

Fiscal Year Cash Flow Effective 1/1/99 \$ Millions			
1998-9	1999-0	2000-01	2001-02
(minor*)	(\$17)	(\$31)	(\$44)

\* Loss less than \$500,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The revenue impact for this bill would be determined by the number of individuals who go through the Employment Development Department training program or a training program taught at an accredited vocational school or community college, the amount of wages paid, and the average amount of credit applied against available tax liabilities.

This estimate was developed in the following steps. First, according to the Employment Development Department (EDD), approximately 76,000 welfare recipients were enrolled in the Job Training Partnership Act Program (JTPA) during fiscal year 1995-96. This number was grown 2% per year to account for any growth of enrolled recipients in JTPA. Second, the Employment Training Panel (ETP), projects an additional 5,000 welfare recipients would qualify under this bill for 1999, resulting in approximately 81,000 potentially eligible individuals for 1999. This number of potentially eligible individuals was grown 5% per year to account for any growth for recipients in JTPA, ETP, vocational schools and community colleges and was adjusted to account for individuals hired in a government agency. Third, for this analysis an average credit amount of \$1,000 per individual was used (i.e. \$2,000 in wages on average per employee). It was further assumed that 50% of the individuals would be employed throughout tax year 1999. Fourth, the proposed revenue was adjusted for the deduction tax benefit under current law. It was assumed that around 40% of these credits would be applied in any given year against available tax liabilities, and the remaining credits would be carried over and applied over three years.